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Financial reports and audited financial statements, and reports of the Board of Auditors

Report of the Advisory Committee on Administrative and Budgetary Questions

1. In accordance with financial regulation 12.11, the Advisory Committee on Administrative and Budgetary Questions received the reports of the Board of Auditors on the financial reports and audited financial statements, for the year ending 31 December 1996, of the voluntary funds administered by the United Nations High Commissioner for Refugees (UNHCR),¹ and the United Nations Institute for Training and Research (UNITAR).² In addition, the Committee had before it the concise summary of principal findings, conclusions and recommendations of the Board of Auditors (A/52/261), as well as an advance copy of the report of the Secretary-General on the implementation of the recommendations of the Board (A/52/381). During its consideration of the reports, the Committee met with members of the Audit Operations Committee.

2. The Advisory Committee commends the Board of Auditors for the quality of its reports. The Committee notes that the Board has taken into account the comments and recommendations made in the last report of the Committee (A/51/533) regarding the need to point out with greater precision recurring malpractices and violations of rules and regulations, to make recommendations more precise and focused and to point out those previous recommendations made by the Board which were not fully implemented by the Administration.

3. The Advisory Committee exchanged views with members of the Audit Operations Committee on the question of the biennialization of the audit reports for UNHCR and UNITAR. The Auditors informed the Committee that there were certain advantages to the biennial audit reports. Accordingly, the Committee requests the Executive Director of UNITAR and the United Nations High Commissioner for Refugees to consult with the Board of Auditors on the implication of submitting biennial instead of annual reports for those two entities, to coincide with the submission to the General Assembly of the biennial reports of the other administrations of the United Nations and its funds and programmes, and to report to the General Assembly at its fifty-third session on the results of such consultations.

Voluntary funds administered by the United Nations High Commissioner for Refugees

4. As indicated in paragraph 2 above, the Advisory Committee welcomes the introduction of a new section in the reports highlighting those recommendations which were not fully implemented, as contained in paragraph 8 of the report on UNHCR¹ and paragraph 5 of the concise summary (A/52/261). The Committee notes that some of these recommendations were made in 1993 and repeated in 1994 and 1995. The Committee also notes, however, that some of the recommendations are under implementation at the moment, and that the process has not yet been completed,



as is the case with the assessment of the capabilities of implementing partners and the submission of project monitoring reports by field offices and subproject monitoring reports by implementing partners.

5. The Advisory Committee points out that the timely submission of audit certificates for expenditures incurred by implementing partners of UNHCR continues to be a concern. As summarized in paragraph 11 of the report on UNHCR, no certificates had been received in respect of 1996 expenditures at the time when the Board was finalizing its report. Furthermore, the Board also indicates that the UNHCR practice of recording cash advances to the implementing partners as programme expenditure at the time the funds are advanced does not meet the criterion of full accountability for programme expenditure. The Committee notes that, as indicated in paragraph 10 of the report of the Secretary-General on implementation of the recommendations of the Board (A/52/381), UNHCR recently started a process of defining its systems requirements and that an important part of that process included a review of the accounting practices, reporting mechanisms and requirements relating to implementing partners. The Committee trusts that this review will fully address the Board's concerns.

6. The Advisory Committee has repeatedly endorsed the views of the Board of Auditors regarding the timely submission of audit certificates by the implementing partners of UNHCR and recommended further efforts to enhance audit of UNHCR operational activities, including assessment of the capabilities of implementing partners to implement major projects (see A/50/560 and A/51/533). In the context of its recent review of UNHCR activities financed from voluntary funds for the period 1996-1998, the Committee discussed the issue with representatives of UNHCR and was informed that the latter was making the audit certification clause mandatory for all the projects as of 1 January 1997. It was also proposing to differentiate between the various categories of implementing partners for audit purposes and it was establishing a comprehensive database that would include financial information about non-governmental organizations, including their ability to comply with UNHCR reporting and audit requirements (see also A/52/381, para. 6).

7. Moreover, the Advisory Committee recommended that the Executive Committee of UNHCR examine the issue with a view to providing further policy directive, in particular with regard to government implementing partners, and pointed out the need to isolate the reasons for delays and lack of compliance with the audit requirements so that further measures may be taken by UNHCR and the

implementing partners concerned. As indicated by the Committee in its report of 24 September 1997, to be placed before the Executive Committee of UNHCR at its forthcoming session, all implementing partners, whether Government or non-governmental agencies, are under the obligation, without exception, to honour the agreement they have freely entered into with UNHCR regarding the management of resources donated by Member States for the purpose of implementing the mandate of the Office of the United Nations High Commissioner.

8. Furthermore, the Advisory Committee is of the view that it is of particular importance for UNHCR to assess fully the capacity of implementing partners before agreement is reached with them, and that the proposal to establish a database of implementing partners should facilitate efforts to ascertain the implementing partners' respective capacity, as indicated in the Committee report mentioned in paragraph 7 above. The Committee was also informed, in the context of its discussions with representatives from UNHCR, that the latter intends to establish a threshold value of \$100,000 for the strict application of the requirements for an audit certificate for projects implemented by national non-governmental organizations.

9. As indicated in the report of the Advisory Committee, this threshold value of \$100,000 would be applied to the total annual value of activities undertaken by a national non-governmental organization on behalf of UNHCR. For projects with a lesser value, UNHCR may request audit certificates if it deems it necessary. The Committee was further informed that the basis for the establishment of this value was that purchases over this amount require the approval of the Committee on Contracts. The Advisory Committee notes that in 1996 there were 259 projects below \$100,000, valued at a total of \$9.4 million — approximately 1.6 per cent of the total value of projects for the year implemented by UNHCR implementing partners. The Committee discussed the issue further with the members of the Audit Operations Committee of the Board and, notwithstanding the threshold value, the Committee believes that for projects below \$100,000 there should be at least one audit during the life of a project. This is similar to the procedure followed by the United Nations Development Programme (UNDP).

10. The findings and recommendations of the Board regarding programme management are contained in paragraphs 8 to 10 of the concise summary (A/52/261) and paragraphs 46 to 74 of the report of the Board of Auditors on UNHCR.¹ The Advisory Committee notes that the rates charged for programme delivery and administrative support for general programmes vary from 32 to 48 per cent of the

total programme budget. As indicated in paragraph 28 of the report of the Advisory Committee of 24 September 1997, these categories of costs are currently undergoing a review by UNHCR. Moreover, the Committee pointed out to UNHCR the urgent need to review the criteria for classifying UNHCR expenditures as administrative, programme delivery and operational, since the definitions used not only appeared too general, but seemed to mix what is normally regarded as programme support costs with programme expenditures. The Committee further recommended, in paragraph 29 of its report, that the High Commissioner take into account the work already done in UNDP, the United Nations Population Fund, and the United Nations Children's Fund on harmonization of budget presentation and submit the conclusion of her review of the classification of UNHCR expenditures to the Executive Committee through the Advisory Committee in conjunction with her submission of the UNHCR budget for 1999.

11. The findings and recommendations of the Board of Auditors in connection with asset management are contained in paragraphs 102 to 115 of the report on UNHCR, and paragraph 15 of the concise summary. The Advisory Committee requests the High Commissioner to take into account the recommendations made by the Board in this regard, bearing in mind the need to establish a fully integrated system, which should enable the tracking of assets throughout their entire life cycle, from requisition and procurement to disposal. The Committee further recommends that the High Commissioner look into the system recently developed by the United Nations Secretariat (Department of Peacekeeping Operations) for the management of assets of peacekeeping operations to determine if the main aspects of this integrated system can be adapted for use by UNHCR.

12. The Advisory Committee expresses concern at the observations made by the Board regarding the use of consultants, summarized in paragraphs 12 to 14 of the concise summary, and recommends that UNHCR take immediate steps to review its contracting policy, to prepare more precise terms of reference and to establish and maintain an updated central roster. Deficiencies in the settlement of travel claims are also indicated in paragraph 116 of the report of the Board of Auditors on UNHCR. The Committee recommends that management action be taken to ensure that these claims are submitted and settled in a more timely manner.

13. With regard to external audit, the Advisory Committee notes, as indicated in paragraph 118 of the report of the Board of Auditors, that a memorandum of understanding was signed by UNHCR and the Office of Internal Oversight

Services regarding resources to ensure adequate audit coverage. The Committee believes it is too early to evaluate the adequacy of resources after the recent signature, but it requests the Board of Auditors to monitor the implementation of the arrangement and to report in the context of its next audit report on the adequacy and functioning of the arrangement.

United Nations Institute for Training and Research

14. The Advisory Committee recalls from its report of 17 March 1993 (A/47/7/Add.14), that the UNITAR debt to the United Nations, which was to be cancelled in return for the immediate transfer of the UNITAR building to the United Nations, amounted to \$11.6 million as of 31 December 1992, based on information contained in the Secretary-General's statement concerning UNITAR (A/C.5/47/82) and updated information received during its hearings on the subject. Of that amount, \$4 million had been advanced to UNITAR for the purchase of the land on which the building was situated. The balance represented mainly advances to UNITAR to meet the shortfalls in its administrative budget.

15. In paragraph 31 of the Board of Auditor's report on the financial statements of UNITAR for the year ending 31 December 1996,² the Board indicates that UNITAR has not cleared the outstanding charges incurred on its behalf at United Nations Headquarters, as recommended by the Board in its previous report.³ Moreover, in paragraph 10 of the report for the year ending 31 December 1996, the Board recommends that UNITAR liaise with United Nations Headquarters to agree on a position on the treatment of these long-standing charges, which date back to 1993.

16. However, in the report on the implementation of the recommendations of the Board of Auditors (A/52/381), UNITAR indicates that this issue was considered by the Board of Trustees of the Institute during its session in March 1997 and that its reading of General Assembly resolution 47/227 of 8 April 1993 was that the writing off of the Institute's debt before the restructuring applied across the board for all former UNITAR debts. It further indicates that official documents supplied by the United Nations Secretariat, including the report of the Secretary-General dated 29 October 1992 (A/47/458), did not prove otherwise.

17. Since this issue remains unresolved to date, the Advisory Committee requests the United Nations Administration to undertake a review of the matter to ascertain if the amount in question constitutes an outstanding debt of UNITAR towards the United Nations and to seek the advice of the Office of Legal Affairs in order to settle it.

Notes

¹ *Official Records of the General Assembly, Fifty-second Session, Supplement No. 5E (A/52/5/Add.5).*

² *Ibid., Supplement No. 5D (A/52/5/Add.4).*

³ *Ibid., Fifty-first Session, Supplement No. 5D (A/51/5/Add.4).*
